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Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 L-03 H-01 IO-13 AGRE-00 IGA-02 /098 W
----------116421 140105Z /45
R 131640Z OCT 77
FM AMEMBASSY RABAT
TO SECSTATE WASHDC 3371

C O N F I D E N T I A L SECTION 1 OF 3 RABAT 5669

ALSO PASS AID

EO 11652: GDS
TAGS: EADI, MO
SUBJECT: RECOMMENDED U.S. ECONOMIC AID STRATEGY FOR MOROCCO
THROUGH 1985

1. INTRODUCTION: WITH THE FIVE-YEAR DEVELOPMENT PLAN RAPIDLY RUNNING OUT, AND THE SUCCEEDING ONE SCHEDULED TO BEGIN EARLY NEXT YEAR, PRESENT TIME IS APPROPRIATE FOR REVIEW OF THE MAGNITUDE AND TYPE OF CONTINUED BILATERAL US DEVELOPMENT ASSISTANCE TO MOROCCO. OUR ANALYSIS TAKES INTO ACCOUTN AID'S "NEW DIRECTIONS POLICY", THE EXPECTED THRUST OF MOROCCO'S ECONOMY OVER THE NEXT FIVE YEARS, AS WELL AS THE PRIORITIES WHICH THE GOM IS LIKELY TO EMPHASIZE IN ITS TRANSITION TOWARD A MORE DEVELOPED ECONOMY.

2. KEY QUESTIONS ARE:
A. WHAT IS THE NATURE OF THE MOROCCAN ECONOMY, AND TO WHAT EXTENT DOES IT RESEMBLE THOSE OF OTHER LDCS?
B. WHAT DEVELOPMENT STRATEGY IS THE GOM LIKELY TO PURSUE DURING THE NEXT FIVE YEAR PLAN?
C. IS THE CONTINUATION OF A US BILATERAL ASSISTANCE PROGRAM JUSTIFIED?
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D. IF THERE IS A VALID ROLE FOR CONTINUED US DEVELOPMENT ASSISTANCE, WHAT SHOULD BE ITS THRUST?
E. IF WE CONCLUDE THAT THERE IS A US ROLE, ARE WE POSTULATING A NEW BILATERAL DEVELOPMENT CONCEPT FOR THE MIDDLE INCOME COUNTRIES?

3. SETTING:

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A. MOROCCO IN 1978: A MIDDLE INCOME COUNTRY?

MOROCCO IS ONE OF THE BETTER-OFF LDC'S, BUT ITS DESIGNATION AS A MIDDLE INCOME DEVELOPING COUNTRY NEEDS QUALIFICATION AND IS PERHAPS TECHNICALLY INACCURATE. ITS PRESENT ECONOMY IS A LEGACY OF THE MANDATE IN WHICH A SMALL BUT ADVANCED "MODERN" ECONOMY WAS SUPER-IMPOSED ON A LARGE, AGRARIAN AND TRADITIONAL ECONOMY. THIS BASIC DISTINCTION PERSISTS. THE ADVANCED SECTOR PRODUCES APPROX 65 PERCENT FO GDP BUT EMPLOYS 28 PERCENT OF THE POPULATION, WITH THE REVERSE IN THE TRADITIONAL SECTOR. THUS, THE NOTION OF "MIDDLE INCOME" DOES NOT PROTRAY TRUE AVERAGE PER CAPITA INCOME AMONG THE WORKING POPULATION. SECOND, MOROCCO HAS 60 TO 70 PERCENT OF WORLD'S PROVEN RESERVES OF PHOSPHATE ROCK. AN ANALOGY TO THE OIL PRODUCING LDC'S IS FAULTY, BECAUSE MOROCCO'S ROLE IN PHOSPHATES CANNOT YET COMPARE WITH THAT OF THE OIL PRODUCERS. THIS SITUATION IS EXPECTED TO CHANGE DURING THE NEXT DECADE, AS DEMAND FOR PHOSPHATE BASED FERTILIZERS GROWS WITH WORLDWIDE POPULATION GROWTH AND INCREASING DEMAND FOR BETTER NUTRITION. MOROCCO IS GRADUCALLY BECOMING THE PRE-EMINENT SUPPLIER OF LOW COST PHOSPHATE ROCK, WITH INCREASED FOREIGN EXCHANGE EARNINGS CONTRIBUTING TO RESOURCE AVAILABILITIES FOR DOMESTIC CAPITAL FORMATION. AT WHAT POINT MOROCCO WILL FULLY ASSUME THIS ROLE IS DIFFICULT TO PREDICT, BUT IT SEEMS CLEARS THAT IT WILL MOVE TOWARD A POSITION OF SUPPLIER PREDOMINANCE IN PHOSPHATE ROCK IN THE 1980'S.
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B. MOROCCAN ECONOMIC DEVELOPMENT GOALS:

BASED ON THE PRIORITIES OF THE PRESENT FIVE-YEAR PLAN, AND THE LIKELIHOOD THAT THE SAME PATTERN WILL CONTINUE IN THE NEXT PLAN, WE EXPECT THE PRESENT LEADERSHIP TO PURSUE AN AGGRESSIVE INDUSTRIALLY-CENTERED CAPITAL FORMATION DEVELOPMENT PROGRAM. WHILE MORE ATTENTION WILL UNDOUBTEDLY BE DIRECTED TOWARD INCREASED PRODUCTIVITY OF THE AGRICULTURAL AND SOCIAL SECTORS, WE ARE SKEPTICAL THAT THIS WILL REPRESENT ANY MAJOR SHIFT IN BASIC RESOURCE ALLOCATION PRIORITIES. THIS SUGGESTS A DEVELOPMENT PROGRAM BASED ON HARD STATE-CAPITALIST PRINCIPLES, ALONG LINES OF THE BRAZILIAN AND IRANIAN MODELS.

C. MOROCCO'S INTEREST IN BILATERAL ECONOMIC AND TECHNICAL ASSISTANCE PROGRAMS:

GOM EFFORTS TOWARD LONG-TERM INDUCTRIALIZATION, TOGETHER WITH A DIFFIDENT RESPONSE TO BILATERAL ASSISTANCE PROGRAMS, LEAD US TO CONCLUDE THAT MOROCCO'S ECONOMIC MANAGERS
-- INTEND TO PURSUE ECONOMIC DEVELOPMENT WITHOUT MUCH FOREIGN ADVICE
-- ARE PREPARED, AND IN FACT PREFER TO PURCHASE CAPITAL AND TECHNOLOGY FOR PRIORITY SECTORS, AT THE COST OF GREATLY INCREASED EXTERNAL DEBT EXPOSURE

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-- WILL ACCEPT ANY SOURCES OF CONESSIONAL ASSISTANCE THAT SERVE PRIMARILY TO REDUCE PRESSURE ON THEIR BALANCE OF PAY-MENTS (SUCH AS PL 480, TITLE K), BUT WHICH ALLOW A FREE HAND. (CONCESSIONAL ASSISTANCE IS DEVELOPMENT AID CONSISTING OF TECHNICAL OR CAPITAL ASSISTANCE FINANCED BY GRANTS OR OFFICIAL LOANS ON SOFT TERMS).
-- ARE INTERESTED IN TECHNICAL ASSISTANCE PROGRAMS THAT CAN BE SHOWN TO ADVANCE THE PERFORMANCE OR OUTPUT OF CONOMIC SECTORS WHICH THEY HAVE IDENTIFIED AS "KEY," BUT WHICH DO NOT ALWAYS COINCIDE WITH AID'S "NEW DIRECTIONS".

FURTHER US CONCESSIONAL ASSISTANCE IN MOROCCO SHOULD THEREFORE BE DESIGNED AROUND GOM DEVELOPMENT PRIORITIES AS THEY BEAR ON RESOURCE ALLOCATION CHOICES.

IN OUR VIEW, US CONCESSIONAL AND TECHNICAL ASSISTANCE
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PROGRAMS CAN PLAY A CONSTRUCTIVE ROLE IN UNDERWRITING OUR BILATERAL RELATIONSHIP, IN WELL DEFINED AREAS, AT A TIME WHEN MOROCCO'S ECONOMY IS MOVING THROUGH AN IMPORTANT LONGER TERM TRANSITION PHASE.

TO BE EFFECTIVE IN MOROCCO, CONCESSIONAL ASSISTANCE MUST BE ORGANIZED AROUND HOST COUNTRY MORE THAN DONOR PRIORITIES. OUR PRIORITIES WILL PROBABLY DIFFER FROM THOSE IN "STANDARD" LDC'S, AND WILL BE INNOVATIVE IN SUBSTANCE, PURPOSE, AND IMPLEMENTATION.

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SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 L-03 H-01 IO-13 AGRE-00 IGA-02 /098 W
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R 131640Z OCT 77
FM AMEMBASSY RABAT
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US CONCESSIONAL ASSISTANCE MUST BE BUILT AROUND A PHASE-OUT PRINCIPLE, THE TIMING OF ACTUAL PHASE-OUT TO COINCIDE WITH EMERGENCE FROM THE PRESENT TRANSITION.

FINALLY, THE CONTINUED COMMITMENT OF US CONCESSIONAL ASSISTANCE IMPLIES THAT THE USG ENDORESE THE GOM'S LONG-TERM ECONOMIC DEVELOPMENT STRATEGY.

WE BELIEVE THAT A CONTINUED PROGRAM OF BILATERAL US CONCESSIONAL ASSISTANCE TO MOROCCO, TAKEN AS A WHOLE AND ADEQUATELY PUBLICIZED, CAN CONTRIBUTE TO A STRENGTHENED ECONOMIC RELATIONSHIP.

A. DEVELOPMENT ASSISTANCE PROGRAM FOR MOROCCO MUST THEREFORE BE:

(A) DESIGNED TO ASSIST IN AREAS WHERE THE GOM PARTICULARLY DESIRES A US INVOLVEMENT,

(B) UNDERSTOOD AS A COMPONENT OF THE GOM'S LARGER ECONOMIC DEVELOPMENT STRATEGY, AND

(C) TIME-DEFINED.

4. PROPOSED PROGRAM STRUCTURE: THE SIZE OF THE AID PROGRAM IN MOROCCO IS AND SHOULD CONTINUE TO BE RELATIVELY MODEST - ON THE ORDER OF DOLS 5 MILLION PER YEAR OF GRANT-FINANCED TECHNICAL ASSISTANCE, SUPPLEMENTED BY AN OCCASIONAL DEVELOPMENT LOAN FOR

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KEY PROJECTS CLOSELY RELATED TO OUR TECHNICAL ASSISTANCE ACTIVITIES. IN ADDITION, PL 480 TITLE I SALES AND TITLE II GRANT PROGRAMS WOULD CONTINUE DURING THE TRANSITION PERIOD AHEAD, BUT AT A DIMINISHING LEVEL, EXCEPT IN EMERGENCY SITUATION.

THE IMPORTANCE OF US DEVELOPMENT LINKS - CONCESSIONAL AND COMMERCIAL, OFFICIAL AND PRIVATE - FOR MOROCCO IS OF MAJOR SIGNIFICANCE FOR THE GOM AND THE US. THE GOM HAS ACCESS TO A RANGE OF HUMAN AND FINANCIAL RESOURCES NOT AVAILABLE TO MANY POORER COUNTRIES. THE MANNER IN WHICH THE US ASSISTS MOROCCO TO CONFRONT ECONOMIC AND SOCIAL PROBLEMS THEREFORE SHOULD NOT BE LIMITED TO CONCESSIONAL AID. MOROCCO'S AMBITOUS PROGRAM REQUIRES TRANSFERS OF TECHNOLIGICAL AND MANAGERIAL SKILL WHICH SOMETIMES GO BEYOND NEW DIRECTIONS ACTIVITIES. IN THIS SITUATION, THE US NEEDS A CAPABILITY TO RESPOND ON A SELECTIVE BASIS. WE FORESEE THA THIS ASPECT OF US AID WILL BECOME MORE IMPORTANT, MORE DESIRED BY THE GOM, AND YIELD INCREASING REAL ECONOMIC PAYOFFS.

WE CAN FACILITATE MOROCCAN ACCESS TO US TECHNOLOGY AND MANAGERIAL KNOW-HOW THROUGH OFFICIAL AND PRIVATE CHANNELS. COMMERCIAL RIVATE VENTURES UNDER US MANAGEMENT IN AGRICULTURE, LIVESTOCK AND AGRIBUSINESS ALREADY EXIST IN MOROCCO AND ARE DEMONSTRATING THE POTENTIAL FOR DEVELOPMENT IN THESE AREAS IF THE MOROCCANS WISH TO PURSUE IT.

A US PRIVATE REGIONAL AGRIBUSINESS-FINANCED INSTITUTION MIGHT

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HOPEFULLY BE ESTABLISHED IN THE NOT TOO DISTANT FUTURE IF THERE IS SUFFICIENT INTEREST ON THE PART OF US PRIVATE ENTERPRISE. THE EX IM BANK HAS RECENTLY DECIDED TO MAKE A SIGNIFICANT CONTRIBUTION (INCLUDING A PRELIMINARY COMMITMENT OF DOLS 200 MILLION TO THE NADOR STEEL COMPLEX; DOLS 23 MILLION FOR THE TEMARA CEMENT FACTORY; AND A DOLS 22 MILLION GUARANTEE TOWARD THE PURCHASE OF A BOEING JET). WE SHOULD ENCOURAGE EX-IM'S CONTINUED PARTICIPATION IN MOROCCAN ECONOMIC DEVELOPMENT. OPIC CAN ALSO PLAY A HELPFUL ROLE.
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THE GOM IS GRADUALLY IMPROVING ITS PERFORMANCE IN ENCOURAGING A PRIVATE AMERICAN BUSINESS PRESENCE IN MOROCCO (THE RECENT PUBLICATION OF PRICE WATERHOUSE'S GUIDE ON DOING BUSINESS IN MOROCCO IS A SMALL BUT NECESSARY STEP). WE INTEND TO ENCOURAGE THE GOM FURTHER IN THIS DIRECTION.

AS A MIDDLE-INCOME COUNTRY, MOROCCO CAN MAKE GOOD USE OF TECHNOLOGY TRANSFERRED FROM THE U.S. TO SPUR ITS ECONOMIC DEVELOPMENT. WE CAN HELP AMERICAN BUSINESS ENTERPRISE TO PLAY A ROLE IN THS PROCESS. AN EMBASSY-WIDE EFFORT TO ENCOURAGE AND FACILITATE CONTACTS AND VISITS OF AMERICANS AND MOROCCANS IN BOTH DIRECTIONS IS ALREADY UNDERWAY, SO THAT KEY MOROCCANS CAN BECOME MORE AWARE OF THE ROLE THAT US ENTERPRISE CAN PLAY IN PROVIDING TECHNOLOGY AND IMPROVED MANAGEMENT CAPABILITY IN MOROCCAN ECONOMIC DEVELOPMENT, AND AMERICAN BUSINESS REPRESENTATIVES CAN BECOME MORE FAMILIAR WITH OPPORTUNITIES IN MOROCCO. SUCH EXCHANGES CAN MAKE A MAJOR CONTRIBUTION TO STRENGTHENING MOROCCAN CAPACITY TO EXPLOIT LOCAL RESOURCES. AID CAN MAKE A MODEST BUT CRUCIAL CONTRIBUTION TO THESE EXCHANGES BY FINANCING US SHORT-TERM CONSULTANTS AND TRAINING FOR MOROCCANS IN THE US IN CAREFULLY SELECTED AREAS, PARTICULARLY WHERE THERE IS A POTENTIAL FOR AMERICAN BUSINESS INVOLVEMENT AND THE LATER PURCHASE OF US GOODS AND SERVICES. SOME COULD EVENTUALLY BE FINANCED BY GOM RESOURCES ONCE THE MOROCCANS DISCOVER, AS THE ALGERIANS HAVE, THAT RELATIVELY MODEST EXPENDITURES CAN YIELD HIGH BENEFITS.

IN ADDITION TO PROVIDING FOR REIMBURSABLE TECHNICAL ASSISTANCE, SECTION 661 OF THE FOREIGN ASSISTANCE ACT AUTHORIZES FUNDS FOR SHORT-TERM MISSIONS TO LDC'S BY US PRIVATE OR PUBLIC SECTOR EXPERTS DESIGNED TO HELP IDENTIFY MORE COMPREHENSIVE, LONGER-RANGE PROJECTS WHICH MIGH RESULT IN THE PURCHASE OF US TECHNICAL SERVICES AND/OR COMMODITIES, AND FOLLOW-OON BUSINESS FOR A US PRIVATE OR PUBLIC SECTOR CONTRACTOR. WE BELIEVE THAT JUDICIOUS APPLICATION OF SECTION 661 FUNDS HAS THE POTENTIAL FOR REAL IMPACT IN MOROCCO.

A BASIC PROGRAM OF US CONCESSIONAL ASSISTANCE FOR THE NEXT FIVE YEARS MIGHT HAVE THE FOLLOWING CHARACTERISTICS:
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-- A BILATERA CONCESSIONAL ASSISTANCE PRESENCE IN MOROCCO THROUGH 1982, BUT PROBABLY NO LONGER THAN 1985, WITH A SPECIFIC PHASE-OUT FEATURE GUILT INTO ITS FIVE/SEVEN YEAR STRUCTURE. PL 480 TITLE 8 SALES AND TITLE II GRANT PROGRAMS WOULD CONTINUE DURIN THIS TRANSITION PERIOD, BUT AT A DIMINISHING LEVEL, EXCEPT IN EMERGENCY SITUATIONS.
-- A SET OF SPECIFIC PROGRAMS PROPOSED BY THE GOM, WORKED OUT IN DETAIL WITH THE GOM, AND WHICH CAN BE SHOWN TO CONTRIBUTE TOWARD OVERALL ECONOMIC DEVELOPMENT GOALS.

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ACTION NEA-10

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WE PROPOSED A PROGRAM IN THE FY1979 ANNUAL BUDGET SUBMISSIONE FOCUSSED ON SELECTED AREAS WHERE US TRAINING AND ADVICE IS LIKELY TO STRENGTHEN LOCAL HUMAN RESOURCES AND INSTITUTIONAL CAPACITY TO CARRY OUT DEVELOPMENT EFFECTIVELY. IT CONCENTRATES ON PRIORITY PROBLEMS IN NUTRITIO, AGRICULTURE, POPULATION, AND HUMAN RESOURCES DEVELOPMENT. WE BELIEVE THAT A PROGRAM FOCUSSED ON THSE PRIORITY AREAS, IF PROPERLY PLANNED AND TARGETTED, REPRESENTS AN APPROPRIATE AID CONTRIBUTION TO THE GOM'S DEVELOPMENT EFFORTS.

WE EXPECT THAT MANY OF THE PROJECT PROPOSALS INCLUDED IN THE FY 1979 CONRESSIONAL PRESENTATION WHICH WE WILL BE SUBMITTING SHORTLY WILL CONTINUE TO ENJOY SOLID GOM SUPPORT WHEN THE NEW GOVERNMENT BEGINS TO CARRY OUT THE NEW FIVE YEAR PLAN (1978-82). WE HAVE HAD RECENT INDICATIONS OF POSITIVE MOVEMENT IN THE CASE OF OUR PROPOSED AGRICULTURAL ACTIVITIES AND IN OUR DISCUSSIONS

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ON HUMAN RESOURCES DEVELOPMENT. THESE ARE IMPORTANT AREAS IN
WHICH GOM PRIORITIES AND AID NW DIRECTIONS OBJECTIVES COINCIDE.
A NEW DEPARTURE IN POPULATION IS NOW BEING IMPLEMENTED AND POR-
TENDS FURTHER SIGNIFICANT EXPANSION.
IN ADDITION TO THIS BASIC PROGRAM, WE WILL SOON PROPOSE A
DEVELOPMENT TRAINING AND CONSULTANTS PROJECT WHICH WILL PROVIDE
THE GOM ACCESS TO US TECHNOLOGICAL, PLANNING AND MANAGEMENT
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CAPABILITY TO SOLVE PROBLEMS IN KEY DEVELOPMENT AREAS HIGH IN
GOM PRIORITIEIS, BUT WHICH ARE NOT IN THE MAIN LINE OF OUR NEW
DIRECTIONS STRATEGY. THESE COULD INCLUDE REMOTE SENSING,
DEVELOPMENT ADMINISTRATION, TECHNIQUES IN ENGLIGH LANGUAGE TRAINING,
EXPORT PROMOTION AND OTHER AREAS WE PLAN TO EXPLORE WITH THE GOM.
IN ADDITION, THE GOM IS ACTIVELY EXPLORING AID'S HIG PROGRAM TO
HELP SOLVE MAJOR URBAN AND RURAL HOUSING PROBLEMS.

4. RECOMMENDATION: THE PROGRAM STRUCTURE WHICH WE RECOMMEND FOR
MOROCCO IS INNOVATIVE AND DELIVERATELY INTENDED TO TAKE ACCOUNT
OF MOROCCO'S EMERGING STATUS AS A MIDDLE-INCOME COUNTRY. WE WOULD
THUS NOT ENVISAGE ANY INCREASE IN THE LEVEL OF THE ECONOMIC
ASSISTANCE PROGRAM. GIVEN THE COMPETING WORLDWIDE CLAIMS, ANY
INCREASE IN OVERALL AID FUNDING SHOULD BE CHANNELLED TO
COUNTRIES WITH RELTIVELY FEWER RESOURCES FOR DEVELOPMENT
AT THEIR DISPOSAL.
HOWEVER, AS PREVIOUSLY STATED, WE BELIEVE THAT THERE CON-
TINUES TO BE A DEFINITE REATIONALE FOR A MODEST BILATERAL US
ASSISTANCE PROGRAM. IT MUST BE APPLIED ON THE BASIS OF
CRITERIAL GERMANE TO MIDDLE -INCOME COUNTRIES AND NOT EX-
CLUSIVELY ON THE BASIS OF EXISTING NEW DIRECTIONS POLICY.
IN OUR VIEW, THE PROGRAM MIX WE HAVE IDENTIFIED FOR MOROCCO
REPRESENTS THE BASIC TYPE OF AID PROGRAM WHICH COULD BE CON-
SIDERED FOR COUNTRIES WITH A SUBSTANTIAL DOMESTIC RESOURCE
BASE WHOSE ECONOMIES ARE THEREFORE MOVING AHEAD RESPECTABLY
TOWARD LESSENED DEPENDENCE ON CONCESSIONAL AID AND WHERE THE
STATE OF OR RELATIONSHIP IS SUCH THAT CLOSE US IDENTIFICATION
WITH THIS LATTER PHASE OF THEIR ECONOMIC DEVELOPMENT IS
CELARLY WARRANTED.

6. THIS MESSAGE, DRAFTED JOINTLY BY USAID AND THE EMBASSY
ECONOMIC SECTION, REFLECTS VEWS OF APPROPRIATE MEMBERS OF
THE COUNTRY TEAM, AND HAS BEEN PERSONALLY APPROVED BY THE
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USAID DIRECTOR AND MYSELF.
ANDERSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977RABAT05669
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770376-0711
Format: TEL
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Original Handling Restrictions: n/a
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 933342
Secure: OPEN
Status: NATIVE
Subject: RECOMMENDED U.S. ECONOMIC AID STRATEGY FOR MOROCCO THROUGH 1985
TAGS: EAID, MO, US
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/653ff830-c288-dd11-92da-001cc4696bcc
Review Markings:
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